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SUBJECT: ECONOMIC STABILITY AND JUNE 30: NO NEWS IS GOOD NEWS

REF: A. 05 KINSHASA 1177

[1](#)B. KINSHASA 919

[1](#)1. (U) Economic stability continued during the period surrounding the DRC's June 30 Independence Day, hand-in-hand with the relative political and social calm. The exchange rate did not fluctuate noticeably, contrary to last year's rapid twenty percent swings (reftel A). Inflation has remained low, averaging 0.1 percent this June.

[1](#)2. (U) Explanations for the stability vary. Congolese government officials, bankers and business operators attribute it to several factors, chief among them optimism in advance of the July 30 national elections. As a result, merchants kept their inventories and price levels stable and currency speculation was at a minimum. The Administrator of the Congolese Chamber of Commerce (FEC) told EconOff that economic operators have increased confidence in the DRC's political stability, and therefore made sure that their inventories were well-stocked in advance of the June 30 holiday. (Note: Western Congo, including Kinshasa, has had shortages of some imported commodities, such as milk, because of a port employees' strike, an event unrelated to June 30 but which shut down maritime port operations for several days. End note.)

[1](#)3. (U) Last year many merchants depleted their inventories before June 30, fearing looting and vandalism (reftel A). Because many goods were plentiful this year, prices remained steady. Within the Congolese market basket of goods, which consists mainly of domestic and regional items, Post observed only manioc and maize price increases in its bi-monthly Kinshasa-area consumer market survey. Other food quantities and prices remained stable, due in part to the better domestic transport conditions during the dry season in some parts of the DRC.

[1](#)4. (U) GDRC authorities also attribute the exchange rate and price stability to May and June's budgetary discipline, following April's overspending (reftel B). In June 2005, the GDRC spent heavily in the days immediately before June 30 to try to "buy" calm, including paying military and police salary arrears, at least in Kinshasa.

[1](#)5. (U) Other theories for this June's economic stability include businesspersons' increased confidence in the Congolese Franc (CF) and the Congolese Central Bank's (BCC) tighter control of the bank note supply. According to FEC's head in Kisangani, Orientale Province and an OFIDA (DRC's customs agency) official in Matadi, Bas-Congo province, business operators are progressively more willing to use CF and the US dollar interchangeably in transactions, rather than the former tendency to use solely foreign currency. However, the Central Bank's assertion that it has increased discipline over the bank note supply contradicts this claim to some extent. A BCC official told Econ LES that the BCC has held the cash supply steady, releasing new bank notes only in exchange for old, unusable ones, which it destroys. (Comment: Until the supply of

circulating CF increases and the BCC releases denominations larger than CF 500, many businesses will continue to use U.S. currency for large transactions. End comment.)

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